
AGENCY OVERVIEW
226 State Land Department

Date: 01/13/2011
Time: 11:09:13**Statutory Authority**

ND Constitution Article IX, North Dakota Century Code Chapters 15-01 through 15-09, 38-09, 38-11, 47-30.1, Sections 57-62-03 through 57-62-06 and 63-01.1-01.

Agency Description

The primary function of the Board of University and School Lands and the Land Department is to manage the 13 permanent trust funds under its control, to preserve the purchasing power of the trusts and to maintain stable distributions to trust beneficiaries. Those beneficiaries include local school districts, various colleges and universities, and other institutions in North Dakota. Revenues are generated for the trusts through the prudent management of trust assets, consisting of over 707,000 surface acres, over 2.5 million mineral acres and over \$1.5 billion of investment assets (loans, marketable securities, and cash equivalents). The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel, scoria, and more recently, potash leasing.

The Land Department also manages four additional trust funds. The lands and minerals trust fund consists of 704,750 mineral acres formerly managed by the Bank of North Dakota, as well as the minerals located under the state's navigable streams, rivers, and lakes, which are owned by North Dakota as sovereign lands. The coal development trust fund is managed to provide loans to coal development-impacted counties, cities and school districts as provided for in Chapter 57-62 and to provide school construction loans as provided for in Chapter 15.1-36. The capitol building trust is managed for the construction and maintenance of public buildings at the capitol and the Indian cultural education trust is managed to benefit Native American cultural purposes.

The Land Department also administers the Unclaimed Property Act. In this capacity the department collects "unclaimed property" and processes claims from owners. This property is held in trust for the owner forever, and the revenue it produces benefits for the common schools trust fund.

The Energy Development Impact Office (EDIO) of the Land Department provides financial assistance to political subdivisions that are affected by energy development in the state. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program.

Agency Mission Statement

The mission of the State Land Department under the direction of the Board of University and School Lands, is to manage the land, minerals and financial assets of the trusts in a way that balances the current needs of trust beneficiaries with those of future generations. The mission of the Energy Development Impact Office is to help minimize the negative impacts that energy development has on political subdivisions in North Dakota.

Agency Performance Measures

Performance within the Land Department is measured by its continued ability to manage the assets of 13 permanent trust funds under its control, to preserve their purchasing power and to maintain stable distributions to trust beneficiaries.

Major Accomplishments

1. Collected \$295.0 million of lease bonus money during the 2010 fiscal year, approximately the amount collected during the previous 39 years combined.
2. Processed 3,000 royalty records each month, double the amount from 2006.
3. Maintained a 99.0 percent leasing rate for the Surface Management Division.
4. Enhanced technology, automated programs and GIS data systems for better and more accurate management of trust acreage.
5. Processed owner claims for unclaimed property maintaining a payout ratio over 50.0 percent.
6. Continued successful EDIO grant program as more political subdivisions were impacted by oil development in the state.

Future Critical Issues

The current high price for oil coupled with continued oil exploration and development and leasing activity will increase trust fund growth. Of the 147 rigs drilling in North Dakota during September 2010, 57 involved state owned minerals managed by the Land Department. The oil and gas royalties, lease bonuses, and the share of the oil extraction tax entering the trust funds has exceeded \$500 million in one biennium and that growth is likely to continue into the next two years.

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With increased rig counts, more division orders necessitate title work and staff review of archival records to resolve mineral acreage discrepancies. Many new tracts are being managed as a result of delineation studies of sovereign minerals beneath the Yellowstone and Missouri rivers. Sorting and clarifying sovereign minerals will take staff resources to resolve disputes and to support legal efforts to obtain royalties currently held in suspense.

The Land Department has been working to “keep up” with the growth in minerals with the assistance from, and the reallocating of FTEs from other divisions within the Department. The Unclaimed Property Division, Surface Management Division, Investment Division and all of the administrative support staff have worked to assist the Minerals Division with the workload growth. As a result, other programs have been impacted. Surface management has an estimated 1.5 FTE working almost exclusively on right-of-way processing; diverting staff from noxious weed efforts, reclamation inspections and range improvements. The Unclaimed Property Division gave up an auditor FTE to the Mineral Division to allow for tracking of well activity. As mineral work expands, the Department will need more help to manage the income it generates.

Clearly a fully staffed Minerals Division is vital to manage and maximize opportunities in all energy related activity, but the other divisions need to be fully staffed in order to fulfill their management responsibilities to the trusts. The budget request proposes to add five additional FTEs to the department, one directly related to a revenue and royalty collection and one to audit unclaimed property compliance; one to assist the single FTE responsible for investments, another to assist the existing one FTE managing all accounting and budget functions and one additional support person to reduce the need to continually hire temporary help.

Technology enhancements require continual maintenance and improvement. Electronic royalty reporting and submission, automated cross referencing with production records, secured fund transfer and ACH payment mechanism, FTP location for file transfers, improvement in internal and public access to data for review and tabulating, and enhancements to the web site to ease customers' ability to make on-line claims, retrieve data, or monitor specific tracts or aggregated data, are technology improvements that should be implemented.

As fiduciary trust managers it is imperative that the Department has the resources in place to effectively and efficiently manage increasing transactions and collections. The workload will continue to grow as the energy industry expands.

Demand for EDIO grants continues to outpace available funds within the oil impact fund.

REQUEST SUMMARY

226 State Land Department

Biennium: 2011-2013

Bill#: HB1013

Date: 01/13/2011

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
By Major Program					
Land Department	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727
Total Major Program	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727
By Line Item					
Salaries and Wages	2,413,591	3,214,850	292,662	3,507,512	676,439
Operating Expenses	595,669	739,952	510,440	1,250,392	254,288
Capital Assets	8,808	10,000	0	10,000	0
Other Grants	1,734,233	9,777,759	(1,889,659)	7,888,100	0
Contingencies	0	50,000	50,000	100,000	0
Total Line Items	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727
By Funding Source					
General Fund					
Federal Funds					
Special Funds	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727
Total Funding Source	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727
Total FTE	18.75	21.75	0.00	21.75	5.00

REQUEST DETAIL

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Date: 01/13/2011

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Salaries and Wages					
Salaries - Permanent	1,752,335	2,261,677	204,107	2,465,784	418,200
Temporary Salaries	67,713	113,616	49,184	162,800	78,448
Overtime	311	384	(384)	0	0
Fringe Benefits	593,232	839,173	39,755	878,928	179,791
Total	2,413,591	3,214,850	292,662	3,507,512	676,439

Salaries and Wages

General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	2,413,591	3,214,850	292,662	3,507,512	676,439
Total	2,413,591	3,214,850	292,662	3,507,512	676,439

Operating Expenses

Travel	132,860	143,250	31,460	174,710	148,788
Supplies - IT Software	2,396	20,251	25,000	45,251	3,045
Supply/Material-Professional	0	8,001	5,000	13,001	0
Food and Clothing	847	0	0	0	0
Bldg, Ground, Maintenance	63,683	0	0	0	0
Miscellaneous Supplies	9,903	0	0	0	950
Office Supplies	14,379	13,249	5,000	18,249	6,000
Postage	25,765	29,300	2,300	31,600	0
Printing	10,040	13,500	5,700	19,200	0
IT Equip Under \$5,000	1,215	15,600	8,400	24,000	8,850
Other Equip Under \$5,000	7,089	0	0	0	0
Office Equip & Furn Supplies	12,406	4,600	16,000	20,600	13,000
Insurance	1,992	8,100	1,200	9,300	0
Rentals/Leases-Equip & Other	1,922	9,000	2,820	11,820	0
Rentals/Leases - Bldg/Land	13,801	95,000	0	95,000	0
Repairs	4,571	1,200	20,000	21,200	0
IT - Data Processing	82,977	105,300	59,560	164,860	9,625
IT - Communications	26,410	31,411	2,500	33,911	4,920
Professional Development	24,293	23,240	38,200	61,440	12,735
Operating Fees and Services	62,083	115,100	160,000	275,100	46,375
Fees - Professional Services	97,037	103,850	127,300	231,150	0
Total	595,669	739,952	510,440	1,250,392	254,288

Operating Expenses

General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0

REQUEST DETAIL

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Biennium: 2011-2013

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Special Funds	595,669	739,952	510,440	1,250,392	254,288
Total	595,669	739,952	510,440	1,250,392	254,288
Capital Assets					
Equipment Over \$5000	8,808	10,000	0	10,000	0
Total	8,808	10,000	0	10,000	0
Capital Assets					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	8,808	10,000	0	10,000	0
Total	8,808	10,000	0	10,000	0
Other Grants					
Grants, Benefits & Claims	1,734,233	9,777,759	(1,889,659)	7,888,100	0
Total	1,734,233	9,777,759	(1,889,659)	7,888,100	0
Other Grants					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	1,734,233	9,777,759	(1,889,659)	7,888,100	0
Total	1,734,233	9,777,759	(1,889,659)	7,888,100	0
Contingencies					
Operating Fees and Services	0	0	50,000	50,000	0
Miscellaneous Expenses	0	50,000	0	50,000	0
Total	0	50,000	50,000	100,000	0
Contingencies					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	0	50,000	50,000	100,000	0
Total	0	50,000	50,000	100,000	0
Funding Sources					
General Fund	0	0	0	0	0
Federal Funds	0	0	0	0	0
Special Funds	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727

REQUEST DETAIL

226 State Land Department

Biennium: 2011-2013

Bill#: HB1013

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Description	Expenditures 2007-2009 Biennium	Present Budget 2009-2011	Budget Request Change	Requested Budget 2011-2013 Biennium	Optional Budget Request
Total Funding Sources	4,752,301	13,792,561	(1,036,557)	12,756,004	930,727

CHANGE PACKAGE SUMMARY

226 State Land Department

Biennium: 2011-2013

Bill#: HB1013

Date: 01/13/2011

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Description	Priority	FTE	General Fund	Federal Funds	Special Funds	Total Funds
<u>Base Budget Changes</u>						
One Time Budget Changes						
A-E 9100 Reduce EDIO appropriation		0.00	0	0	(1,889,659)	(1,889,659)
Total One Time Budget Changes		0.00	0	0	(1,889,659)	(1,889,659)
Ongoing Budget Changes						
A-A 1100 Changes in the base budget reflect inflationa		0.00	0	0	259,580	259,580
A-A 2100 Changes in the base budget reflect costs for		0.00	0	0	20,000	20,000
A-A 3100 Changes in the base budget reflect increased		0.00	0	0	37,360	37,360
A-A 4100 Changes in the budget reflect increased costs		0.00	0	0	193,500	193,500
A-A 5100 Capital Asset		0.00	0	0	10,000	10,000
A-A 6100 Reclassification of staff		0.00	0	0	52,800	52,800
A-A 7100 Increase contingency fund line item		0.00	0	0	50,000	50,000
A-F 5200 Remove capital asset		0.00	0	0	(10,000)	(10,000)
Base Payroll Change		0.00	0	0	239,862	239,862
Total Ongoing Budget Changes		0.00	0	0	853,102	853,102
Total Base Budget Changes		0.00	0	0	(1,036,557)	(1,036,557)
<u>Optional Budget Changes</u>						
Ongoing Optional Changes						
A-C 8100 New FTE - Minerals Royalty Auditor	1	1.00	0	0	241,324	241,324
A-C 8400 New FTE - Acct/Budget - Acctg Div.	2	1.00	0	0	132,247	132,247
A-C 8300 New FTE - Acct/Budget - Invest Div.	3	1.00	0	0	132,247	132,247
A-C 8600 New - Additional temporary/seasonal staffing	4	0.00	0	0	72,400	72,400
A-C 8200 New FTE - Unclaimed Property Auditor	5	1.00	0	0	187,960	187,960
A-C 8700 New Temporary Staff	6	0.00	0	0	59,708	59,708
A-C 8500 New FTE - Administrative Assistant	7	1.00	0	0	104,841	104,841
Total Ongoing Optional Changes		5.00	0	0	930,727	930,727
Total Optional Budget Changes		5.00	0	0	930,727	930,727

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Change Group: A	Change Type: A	Change No: 1100	Priority:
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Changes in the base budget reflect inflationary and service usage incr

Changes in the base budget reflect inflationary and service usage increases. The most significant increases relate to IT line items. We are anticipating an increase in IT data processing as our need to utilize ITD services continues to rise due to the rapid growth of the Land Department. Specifically, utilizing the ITD hosted workflow tool (sharepoint) as well as their assistance with the Land Department's website design. In addition, we are anticipating a 1.44% increase in Microsoft Office licensing fees during the biennium. Other operating fee increases are the result of higher advertising costs and professional services including auditing costs.

Change Group: A	Change Type: A	Change No: 2100	Priority:
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Changes in the base budget reflect costs for repairs and maintenance t - Building is owned by Common Schools Trust Fund

Changes in the base budget reflect costs for repairs and maintenance to office building owned by the Common School Trust Fund. Due to the age of the office building, a preventative maintenance schedule has been established to avoid the necessity of extensive repairs. The base budget was increased to provide the funding to be proactive and implement a routine maintenance schedule.

Change Group: A	Change Type: A	Change No: 3100	Priority:
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Changes in the base budget reflect increased costs as only tenant of b - Administrative Hearings is scheduled to move on July 1, 2010 leaving the Land Department as the only tenant within the building owned by Common Schools.

Changes in the base budget reflect additional costs that will be incurred after the Office of Administrative Hearings moves from the office building on or before July 1, 2011. These additional costs include ITD rates that will no longer be shared with fellow state agency tenant and office furnishings for vacated offices that will be occupied by the FTEs authorized for the 2009-11 biennium.

Change Group: A	Change Type: A	Change No: 4100	Priority:
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Changes in the budget reflect increased costs relating to the oil and - Changes in the base budget reflect increased costs relating to the oil and gas activity.

Changes in the base budget relate to the rapid and unprecedented oil and gas activity in North Dakota. The most significant increases relate to professional services and staffing expenses. Specifically, we are anticipating legal costs will increase as mineral title disputes are brought to the Board and IT data processing fees will increase as the Minerals Division utilizes filenet for data storage. We are also anticipating an increase in temporary staffing services as more demand is placed on our current support staff to assist in speciality areas. If the administrative assistance FTE is approved, there would be no need for temporary staffing services and Professional Services could be decreased by \$14,000.

Change Group: A	Change Type: A	Change No: 5100	Priority:
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Capital Asset - ATV replacement or addition

Changes in the Capital Asset reflects the replacement or purchase an additional ATV for field inspections.

Change Group: A	Change Type: A	Change No: 6100	Priority:
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Reclassification of staff - Requesting additional funding to reclass current positions.

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Requesting salary increases to reclassify several staffing positions due to added technical skills and responsibilities required within the current positions.

Change Group: A	Change Type: A	Change No: 7100	Priority:
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Increase contingency fund line item - Requesting increase in appropriation the Board can transfer to other line items.

The unprecedented exponential growth that the Land Department has and will continue to experience necessitates an increase in the contingencies line item to allow the Board the flexibility to adjust spending and allocate resources as demands change.

Change Group: A	Change Type: C	Change No: 8100	Priority: 1
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New FTE - Minerals Royalty Auditor - Auditor position was vacated in 2008 and filled with a mineral title specialist in the minerals division.

Due to oil and gas activity and the openings within the Land Department audit division during the 2009-11 biennium, the auditor positions were reclassified to Mineral Title Specialists positions. We are requesting approval for a FTE specific to minerals royalty auditing.

Change Group: A	Change Type: C	Change No: 8200	Priority: 5
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New FTE - Unclaimed Property Auditor - Auditor position was vacated in 2009 and filled with a data base design analyst in the minerals division.

Due to oil and gas activity and the openings within the Land Department audit division during the 2009-11 biennium, an auditor FTE was reclassified to a data processing specialist in the Minerals Division. We are requesting approval for a FTE specific to an unclaimed property auditor.

Change Group: A	Change Type: C	Change No: 8300	Priority: 3
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New FTE - Acct/Budget - Invest Div. - Position will assist the Investment Division of Land Department

Additional FTE in the Investment Division to assist the Director with due diligence, performance monitoring, cash management, and other investment related functions.

Change Group: A	Change Type: C	Change No: 8400	Priority: 2
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New FTE - Acct/Budget - Acctg Div. - Position will assist the accounting function of Land Department

Additional FTE in the Accounting Division to assist with preparing accounting and budget-related statements, reports, and supporting documentation; maintaining accounting ledgers and journals; reconcile statements with accounting transaction; payroll and other accounting related functions.

Change Group: A	Change Type: C	Change No: 8500	Priority: 7
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New FTE - Administrative Assistant - This staff position will assist the minerals division

Additional administrative staff member to assist with the increased workload throughout all divisions. We have included in our professional services budget line item, the use of temporary staffing services, however, if this FTE is approved, this line item could be reduced by \$14,000.

Change Group: A	Change Type: C	Change No: 8600	Priority: 4
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BUDGET CHANGES NARRATIVE**226 State Land Department****Bill#: HB1013****Date:** 01/13/2011**Time:** 11:09:13

New - Additional temporary/seasonal staffing hours - Requesting additional hours for the Land Department

The oil and gas industry constructs pipelines, roads, well sites and other infrastructure using subcontractors. The Land Department does both the well site inspections and inspections of pipelines and roads, as of September 2010 there are over 300 reclamation inspections that need to be completed. In addition to the oil and gas work, we need a field presence for noxious weeds and range management. Additional hours for our temporary staff will allow more site inspections to be completed.

Change Group: A	Change Type: C	Change No: 8700	Priority: 6
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New Temporary Staff - Requesting additional hours to hire an additional temporary/seasonal staff member.

The oil and gas industry constructs pipelines, roads, well sites and other infrastructure on surface acreage using subcontractors. The industry does not invest in follow-up inspections of reclamation, thus the Land Department does both the well site inspections and inspections of pipelines and roads. If a problem is found, additional time is spent working with the industry to correct the problem. The backlog of over 300 reclamation inspections has been created over the past 3 years due to the increased oil activity and a lack of staff. As a result of the oil and gas activity, the number field site inspections will continue to increase. An additional temporary position will allow for an increase in field site inspections.

Change Group: A	Change Type: E	Change No: 9100	Priority:
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Reduce EDIO appropriation - Appropriated EDIO grants appropriation was greater than legislative bill

Appropriations for EDIO grant fund was not as approved in House Bill 1304. House Bill 1304 approved an amount not exceeding \$8,000,000.00 while appropriation bill indicated \$10,000,000 less expenses. Grant Fund is reduced to correct error.

Change Group: A	Change Type: F	Change No: 5200	Priority:
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Remove capital asset - There was not immediate need to replace the ATV during the 2009-11 biennium

Removing the capital asset appropriation since there was not a need to replace the ATV during the 2009-11 biennium.

Change Group: R	Change Type: A	Change No: 10	Priority:
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New Positions

This recommendation provides authority for 3.00 FTE positions:

- An Auditor III to serve as a minerals royalty auditor, ensuring that the growing volume of royalty payments owed to the state are correctly distributed.
- An Accounting/Budget Specialist I to serve in the investment and administrative divisions to provide assistance. The workload volume has increased substantially as the volume of minerals activity has increased. Staff duties have been realigned to address the needs of the minerals division. Additional staff are needed to continue to effectively manage the agency's assets.
- An Office Assistant III to assist in the administration of the energy development impact and growth impact fund grant programs.

Change Group: R	Change Type: A	Change No: 20	Priority:
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Additional Temporary Staff

BUDGET CHANGES NARRATIVE**226 State Land Department****Bill#: HB1013****Date:** 01/13/2011**Time:** 11:09:13

Temporary staff are used to perform initial site inspections and reclamation inspections on state lands. There is currently a backlog of over 300 reclamation inspections. Additional temporary staff personnel and hours are required to complete this work and eliminate the current backlog. This recommendation provides \$72,400 to pay for additional hours using existing temporary staff and \$59,708 to hire additional temporary staff.

Change Group: R	Change Type: A	Change No: 40	Priority:
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EDIO Grant Program Expansion

This recommendation increases the statutory cap on gross production tax allocations to the oil and gas impact fund from the current level of \$8.0 million per biennium to \$100.0 million per biennium.